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FM AMEMBASSY SARAJEVO  
TO RUEHC/SECSTATE WASHDC 9880  
INFO RUEHZL/EUROPEAN POLITICAL COLLECTIVE  
RUEATRS/DEPT OF TREASURY WASHDC  
RUCPDO/DEPT OF COMMERCE WASHINGTON DC

C O N F I D E N T I A L SECTION 01 OF 02 SARAJEVO 000310

SIPDIS

TREASURY FOR LINDQUIST  
DEPARTMENT FOR EUR/SCE

E.O. 12958: DECL: 03/10/2019

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SUBJECT: FEDERATION DEVELOPMENT BANK SCANDAL - WATCH THIS  
SPACE

Classified By: Charge Judith Cefkin. Reason 1.4(b)

¶1. Summary. (C) Federation Financial Police have started an investigation of potential irregularities in the operation of the Federation Development Bank. After initially being threatened and rebuffed by Bank director Ramiz Dzaferovic on March 3, the investigators returned on March 9 with a police SWAT team and a warrant for his arrest if he continued to interfere. The investigation is focusing on the Bank's loan practices which have allegedly heavily favored politically-connected Bosniak elite businessmen and which have led to significant profits for Dzaferovic's own audit firm. The investigation could have significant political impacts if Bosniak political leaders are implicated. End summary.

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A checkered past and present allegations  
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¶2. (U) Ramiz Dzaferovic was a high level SDA official in the post-war era and held the position of Director of the Federation Tax Administration. In 2000 he was removed by the High Representative for corruption and use of his office for blatant political purposes. After the removal and being banned from holding public office, Dzaferovic founded an audit company named after himself. In 2006, the Office of the High Representative lifted the ban on Dzaferovic. Reportedly, SDA leader Sulejman Tihic then asked Dzaferovic what job he wanted and Dzaferovic said that he wanted to be head of the Federation Development Bank (then known as the Federation Investment Bank). He was appointed as Director of the bank in January 2007 as the only applicant for the position.

¶3. (C) The assumption in the press and by observers in Bosnia is that Dzaferovic got the job so that the controlling Bosniak political parties in the Federation could have access to favorable loans for their companies or their relatives' and friends' companies. The Bank's activities are not transparent and are mostly hidden behind confidentiality requirements of Bosnian banking laws. The press, however has begun exposing the bank's activities. Some reports, for example, cite a seven million KM (\$1 equals roughly 1.55KM) loan to Nedžad Bubica a close friend of Federation Prime Minister Nedžad Brankovic (SDA) and SDA Vice President Bakir Izetbegovic to build an office building in downtown Sarajevo that is now occupied by the European Union and the German Embassy. The scandal broke when it became known that the Bank loaned Fahrudin Radoncic, the owner of the Dnevni Avaz newspaper and several real estate investments, 22.8 million KM to complete an office tower in Sarajevo. Radoncic promptly admitted receiving the loan, but said that his rival the Selimovici family had obtained even more. There are also reports of a blatant conflict of interest in which loan

recipients (perhaps a quid pro quo) use and pay high fees to Dzaferovic's audit firm. Reportedly, recipients of 66 million KM in loans over the past three years paid the audit company an estimated 3.3 million KM. One magazine reported that Dzaferovic claimed on his personal income tax an income from his audit company of 200,000 KM in 2007 and 300,000 KM in 2008. (His salary at the bank was over 100,000 KM.)

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Responding with arrogance, but the police push back hard  
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14. (C) Dzaferovic's initial response to the investigation was to refuse to cooperate at all and to threaten the investigators. He reportedly announced that he did not trust the Financial Police, the Sarajevo Canton Prosecutor's office, the prosecutor on the case or any other BiH institution. He warned that all of the prosecutors had superiors and refused to turn over any documents. The investigators withdrew from the Bank on March 3 with some reports that they left under a barrage of verbal abuse and threats. On the advice of his attorney, on March 9 Dzaferovic allowed the Financial Police (who were supported by a Federation Police SWAT team and arrest warrant for Dzaferovic if he interfered) to return to the Bank and to renew their inquiries. Financial Police Chief Inspector Zufer Dervisevic told Economic Counselor on March 9 that he was determined to see the investigation through and that Dzaferovic had indeed threatened his investigators. Dervisevic said that the investigation may take some time, but would be done. (Note. The Police seem to have definitely taken control - while we were in Dervisevic's office, the SWAT

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team leader called and asked if they should let Dzaferovic go to a haircut appointment. End note.) Dervisevic also said that the Financial Police were working well with the prosecutor on the case who on March 11 required Dzaferovic to appear at the Federation Police to give a statement.

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Watch this space  
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15. (C) The Federation Development Bank's purpose should be to support job-creating new businesses - especially small and medium enterprises - that could help the Federation climb back from the world-wide economic crisis. Instead, it seems to have been run as a private source of loans for Bosniak insiders and may have been the conduit for some of the corrupt activities that everyone in the Federation assumes are going on among political circles. It is too early to determine if the Financial Police investigation will be successful or even completed given the possible political power that may be turned against them if they get close to information clearly linking Brankovic, Izetbegovic or Tihic to improper loans or other activities. Nonetheless, the strong press coverage and Dervisevic's determination provide some hope. It may take some time, but this investigation could mirror the ongoing investigation into the activities of Republika Srpska Prime Minister Dodik. End comment.

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